Corporate Intelligence

Greater London & South East

November 2017

Continued corporate investment in the South East bodes well for future requirements

■ Since 2015 there has been £59.9bn invested into and by occupiers who are located in Greater London & the South East. This has been in the form of private equity, venture capital and merger and acquisition activity. After a company has received funding it is likely they will undergo a period of expansion and need to either acquire further real estate or consolidate their existing portfolio. This report will analyse the corporate activity present in the region and investigate if developers and investors are providing enough real estate for these companies to expand and grow.

■ There has been an increase in corporate activity with 2017 already exceeding 2016.This highlights the continued confidence in the quality of businesses in the region. Office based employment in the South East is forecast to grow by 4% to 2021 according to Oxford Economics which equates to an extra 60,000 new jobs. These factors combined could lead to an increase in requirements and subsequently take-up despite the ongoing trend of occupiers rationalising their space needs.

■ The two business sectors which have seen significant investment since 2015 were manufacturing & industry and technology who raised £29.1bn and £8.8bn, respectively. These two business sectors have been the most active in the occupational market based upon the five year average take-up, accounting for 17% and 21% of total space transacted highlighting their importance to the office market.

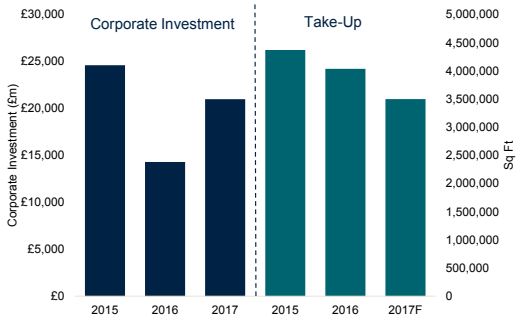
■ The technology sector continues to expand in the region most notably in the Thames Valley. According to the Tech Nation 2017 report there were on average 605 digital startup births per year between 2011-2015 in Reading which has the largest digital cluster in the UK. This provides venture capitalists and private equity investors with a strong base of targets to explore and will ensure that Reading and the Thames Valley continues to flourish as a leading hub of technological activity. This is supported by the highly skilled resident labour force and fast public transport connections to London. Therefore it is imperative that the specification of new and refurbished office buildings can enable technology companies to thrive. One such feature is the provision of fibre optic connectivity which has proved a key requirement of technology companies who are seeking new office space.

■ The Western Sector of the M25 office market has seen the highest amount of investment since 2015 totalling £29.0bn which equates to 48% of total investment into the M25 office market, with Slough, Bracknell and Windsor being notably active. Companies who have been involved in large corporate transactions in 2017 include Reckitt Benckiser, Vocalink, Affinity Water and E2V Technologies which totals £5.4 billion.

■ It is crucial that there is sufficient office space available that will allow these companies to expand. In certain smaller markets, there has been limited amounts of development which has resulted

GRAPH 1

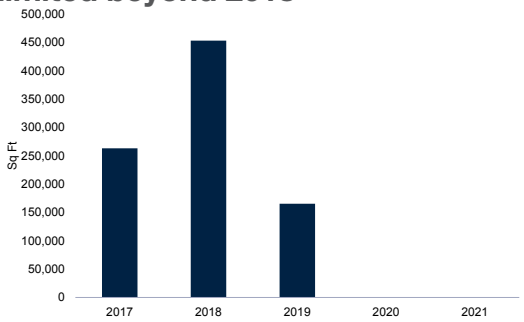
Corporate Investment and Take-Up



Source: Savills Research

GRAPH 2

The office development pipeline is limited beyond 2018



Source: Savills Research

GRAPH 3

Notable Deals by Capital Raised 2017

Company	Value (£m)	Type
Reckitt Benckiser	£3,230	M&A
Vocalink	£869	M&A
Affinity Water	£763	LBO
E2V Technologies	£627	M&A

Source: Savills, Company Data

in companies located in these areas having to relocate to expand. If there continues to be limited new development, especially in smaller markets this could limit employment growth. An example of this theme occurring in recent years is Permasense who relocated from Horsham to Crawley after being acquired by Emerson Electric, they leased 12,644 sq ft at Alexander House.

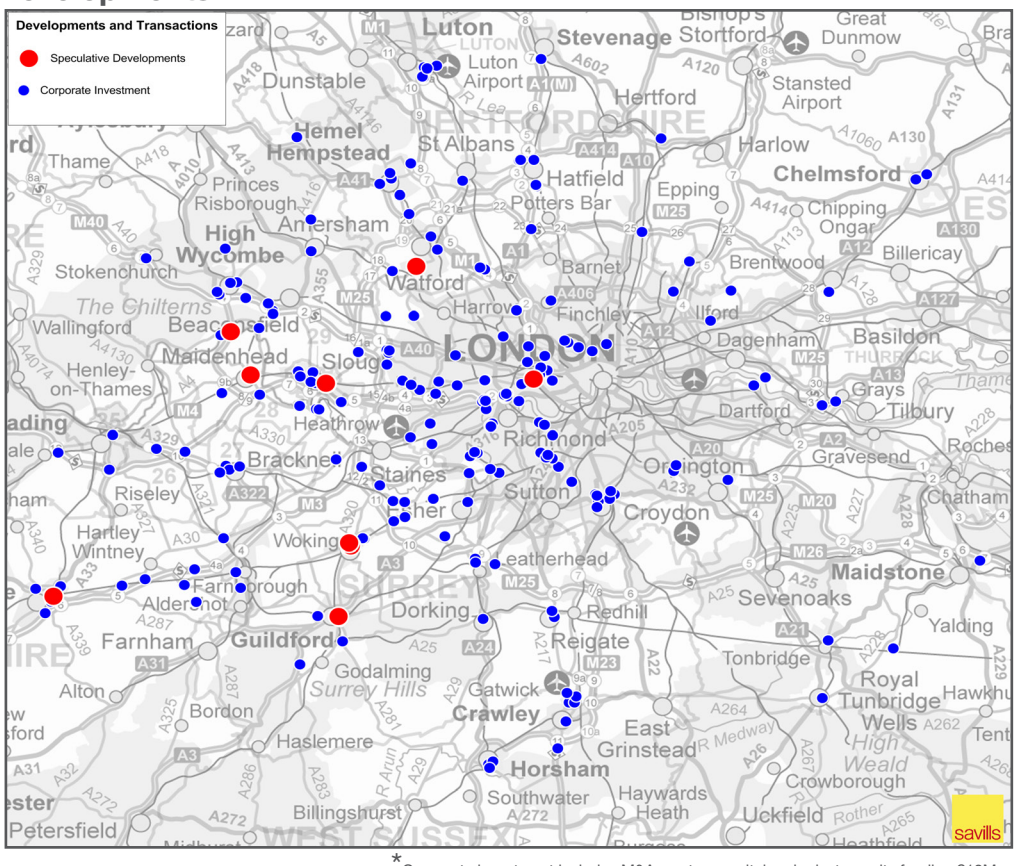
■ However, where new development has taken place it is positive news that occupiers are willing to move to expand as it increases the potential target area for new tenants to be targeted. Whilst moves over large distances are relatively rare, due to the fear of losing staff, occupiers can be footloose especially if their workforce is predominantly car borne. Savills research, "How Far are Occupiers Moving?" report, released in 2016, uncovered that between 2010-2015, occupiers moved an average of 6.9 miles for grade A office space over 20,000 sq ft, in the Greater London & South East office market.

■ Developers and investors could potentially capitalise on the new investment into occupiers by speculatively developing in the market. There has been £21.0bn invested into companies in 2017, which will drive demand going forward which was highlighted by Autolus based in White City, who are a startup drug development company who received £60.9m of funding in 2017 and currently have a 25,000-40,000 sq ft requirement.

■ There is currently limited speculative development taking place in the market which is depicted in the map below. This is most notable in Northern and Southern sectors with only four schemes either under construction or been announced. This could create a problem in the medium term when considering that £31.0bn has been invested into companies since 2015 in these market areas. Occupiers may be unable to expand in these geographic areas due to the limited speculative development pipeline. Furthermore when you consider pre-let deals are extremely rare in the market with the long term average of annual deals recorded in the market being pre-let is only 0.9%, the case for speculative development is heightened. Therefore we believe that the investment into companies should give developers and investors confidence when considering speculatively developing in the market.

MAP 1

Corporate Investment* Since 2015 and Current Speculative Developments



*Corporate investment includes M&A, venture capital and private equity funding £10M+

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